CITADEL™

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Setting the standard in structured products.

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

Citadel Premium Income Fund

Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

CITADEL PREMIUM INCOME FUND

ANNUAL REPORT 2007

Citadel Premium Income Fund

Citadel Premium Income Fund (the "Fund" or "Citadel Premium") is a closed-end investment trust which was formed and began trading on July 20, 2006 as a result of the merger of three Citadel Funds – MYDAS Fund, Citadel Multi-Sector Income Fund and Citadel Income & Growth Fund. The Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Administrator with the prior approval of the unitholders of the Fund by special resolution passed at a meeting called for such purpose.

During 2007, Citadel Premium paid total cash distributions of $1.07 per unit compared to $0.51 per unit in the short fiscal period of 2006. In addition to the regular monthly distributions of $0.085 per unit for 2007, Citadel Premium declared a special cash distribution of $0.05 per unit and an estimated special unit distribution of $0.15 per unit to unitholders of record on December 31, 2007. Upon completion of the Fund's 2007 tax information, the Fund adjusted the value of the special unit distribution to nil due to a larger than expected capital gains refund.

INVESTMENT HIGHLIGHTS:

	2007	2006
Net Assets per Unit [1]	**$10.57**	$10.74
Market Price per Unit [1]	**$9.65**	$10.14
Trading Premium (Discount)	**(8.7%)**	(5.6%)
Cash Distributions per Unit [2]	**$1.07**	$0.51
Trailing Yield [3]	**11.1%**	n/a
Market Capitalization ($ millions)	**$453.5**	$614.8

[1] Net assets and market price are based on year end values.

[2] First monthly distribution had a record date of July 31, 2006 and was paid August 15, 2006.

[3] Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

Management Report of Fund Performance

(March 20, 2008)

This annual report for the year ended December 31, 2007 and for the period from inception on July 20, 2006 to December 31, 2006 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Citadel Premium Income Fund.

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Premium's investment objectives are to provide unitholders with monthly cash distributions, the opportunity for capital appreciation and to distribute the net assets of the Fund to unitholders on the termination of the Fund. The Fund will seek to achieve these investment objectives by investing in an actively managed portfolio of Canadian income funds, common shares and other income securities.

RISK

There are a number of risks associated with an investment in Citadel Premium Income Fund. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

INCOME TRUST TAX

Bill C-52, an Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007, was given Royal Assent on June 22, 2007 thereby passing into law the Government's imposition of a tax on income trusts starting in 2011. Since the announcement of the income trust tax in October 2006, takeover activity in the trust sector has been significant. We expect that a significant level of takeover activity will persist in the trust sector during the next few years as trusts consider tax mitigating restructuring alternatives leading up to 2011. The tax on income trusts does not directly impact Citadel Premium, however the tax will impact many of the holdings within its portfolio.

RESULTS OF OPERATIONS

The overall income trust sector experienced much higher redemptions in 2007 relative to 2006 despite having produced a positive total return of 6.6% in 2007 compared to negative 2.8% in 2006. In addition to the negative funds flow into the sector, weakness in the energy and real estate sectors along with confirmation of the new tax on trust distributions commencing in 2011 weighed on overall valuations. Despite record high oil prices in 2007, energy related trusts were hampered by the rising $Cdn and escalating costs as well as soft natural gas prices and the prospect of Alberta royalty rate increases. In addition, Reits suffered their first year of negative performance since 1998 as concern over the decelerating US economy and US real estate issues caused by tightening credit depressed Reit unit prices. On the positive side, strong acquisition and privatization activity provided some sector wide unit price support, particularly in the ongoing business trust sector.

As a result of these negative market conditions and the Fund's mandatory unit repurchases and annual redemption, Citadel Premium's net assets declined from $650.9 million at December 31, 2006 to $496.7 million at December 31, 2007. At the annual June redemption, unitholders exercised their right to redeem a total of 21.6 million units for a total cost of $244.9 million or $11.36 per unit. The Fund also completed a rights offering on November 20, 2007 with the issuance 9,468,337 units at $9.37 per unit for total proceeds of $88.7 million which offset some of the asset declines. On a per unit basis, the Fund's net assets declined from $10.74 per unit at December 31, 2006 to $10.57 at the end of 2007.

The Fund's market price also declined over the year, closing at $9.65 per unit on December 31, 2007 down from $10.14 per unit at the end of 2006. Citadel Premium's market price decline plus monthly cash distributions produced a 7.1% total return for 2007, while the Fund generated a 10.8% total return on a net assets basis. By comparison, the S&P/TSX Income Trust Index returned 6.6% over the same period.

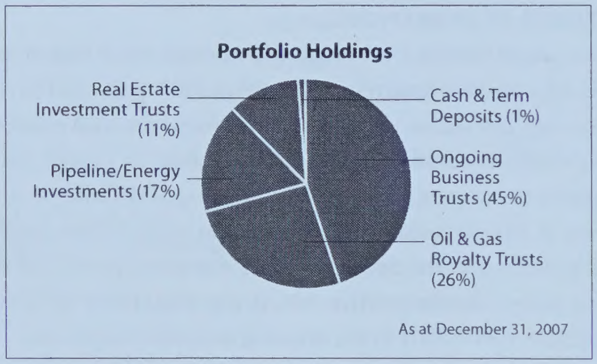
Total revenue for 2007 was $60.3 million compared to $33.6 million for the short fiscal period from July 20, 2006 to December 31, 2006. Administrative and investment manager fees, which are paid partially in units and partially in cash and are calculated in reference to the Fund's net asset value, totaled $5.4 million in 2007 compared to $2.8 million for the period ended December 31, 2006. Trailer fees, which are also calculated in reference to the Fund's net asset value, were $2.0 million in 2007 compared to $1.4 million in the short fiscal period of 2006. General and administration costs, including portfolio transaction costs and other expenses, totaled $2.9 million compared to $0.4 million in 2006. General and administrative costs for 2007 include portfolio transaction costs of $1.8 million which were not expensed in 2006 due to the implementation of the new accounting standard on financial instru-

ments. The Fund commenced with the use of leverage in July 2007 and incurred loan interest costs of $2.4 million. As at December 31, 2007, the Fund had $98.4 million outstanding on its $150 million credit facility. After total expenses of $12.8 million (2006 - $4.6 million), the Fund generated net investment income of $47.6 million or $0.95 per unit in 2007 compared to $29.0 million or $0.48 per unit in 2006.

The Fund realized net losses totaling $26.4 million on numerous dispositions of investments in the year as a result of the annual June redemption and significant mergers and acquisitions activity. However these losses were more than offset by net unrealized gains in the portfolio of $51.2 million resulting in total results of operations of $72.4 million or $1.45 per unit for 2007. Total results of operations were negative $47.6 million or negative $0.79 per unit in the short fiscal period of 2006 as the Fund experienced net realized losses of $9.6 million and net unrealized losses of $67.1 million.

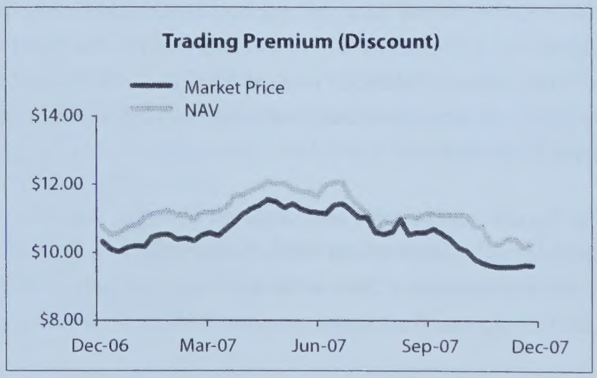
During 2007, Citadel Premium paid monthly cash distributions to unitholders of $0.085 per unit plus a special cash distribution of $0.05 per unit at year end to unitholders of record on December 31, 2007 for a total of $1.07 per unit or $52.0 million compared to $30.9 million or $0.51 per unit period from inception to December 31, 2006. In addition, the Fund declared an estimated special unit distribution of $0.15 per unit to unitholders of record on December 31, 2007, which was payable in units of the Fund. Upon completion of the Fund's 2007 tax information, the Fund adjusted the value of the special unit distribution to nil due to a larger than expected capital gains refund.

Citadel Premium uses leverage as part of its investment strategy to acquire additional portfolio securities and enhance yield. The Fund maintains a 364 day revolving credit facility with a maximum limit of $150 million. The facility bears interest at either the bank's prime rate or bankers' acceptance rate plus a fixed percentage. During 2007, the Fund's minimum and maximum borrowings were nil and $115.0 million respectively. As at December 31, 2007, the Fund had total borrowings of $98.4 million which represented 19.8% of net assets.



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

For 2007, Citadel Premium's unit price traded below its net asset value at an average discount of 5.8% compared to an average discount of 5.8% in 2006. With this discount, the Fund repurchased 2,043,900 units at an average cost of $10.49 per unit for 2007 compared to 1,074,900 units at an average cost of $10.78 per unit in 2006 under its mandatory repurchase program. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding.



On December 18, 2007, the Fund entered into a normal course issuer bid whereby a total of 4,550,763 trust units may be repurchased for cancellation over a period of twelve months. For the year ended December 31, 2007, the Fund had repurchased 113,900 trust units pursuant to this bid at an average cost of $9.71 per unit.

RECENT DEVELOPMENTS

Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 – Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Citadel Premium's three person Independent Review Committee ("IRC") was formed on April 1, 2007 and became fully operational on November 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures were adopted on November 1, 2007 and the Fund was in full compliance of NI 81-107 at that time.

New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Fund is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on the closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the investments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. An adjustment has been made to the opening net assets in the Statement of Changes in Net Assets in order to reflect the effect on investments held at December 31, 2006, of following section 3855 with respect to recording the fair value of investments at bid prices.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. Upon adoption on January 1, 2007, the Fund was not party to any derivative contracts. Portfolio investments and loan payable were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

As outlined in National Instrument 81-106 Section 14.2, the net asset value ("NAV") of an investment fund is to be calculated in accordance with Canadian GAAP. The Canadian Securities Administrators ("CSA") granted temporary relief to investment funds from complying with Section 3855 for the purpose of calculating and reporting of NAV (other than for financial reporting purposes) to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements. This relief period has been extended until September 30, 2008. The CSA has proposed amendments to NI 81-106 that will permit funds to have two different net asset values;

one for financial statements which will be prepared in accordance with Canadian GAAP (referred to as "net assets" or "net assets per unit"); and another for all other purposes (referred to as "net asset value" or "net asset value per unit"). Until that time, the Fund intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements. This Management Report of Fund Performance has been prepared based on the proposed amendments and the December 31, 2007 annual financial statements have been presented in accordance with the new accounting rules.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom. The forward looking statements contained in this annual report are expressly qualified by this cautionary statement. Except as may be required by applicable securities law, we undertake no obligation to publicly update or revise any forward looking statements.

RELATED PARTY TRANSACTIONS

CGF Funds Management Ltd. is the administrator of Citadel Premium, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund. The fee is payable in units or cash at the option of the administrator, monthly in arrears. Currently, the fee is paid 75% in units and 25% in cash. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

In conjunction with the merger, the administrator of Citadel Premium negotiated a settlement payment on termination of the investment manager on behalf of the three merging funds. Citadel Premium initially funded the settlement amount of $6.2 million however the administrator has agreed to compensate the Fund for the amount by way of a reduction in the annual management fee from 1.1% to 0.9%, contingent on certain conditions. This reduction of the annual management fee has been reflected in administrative and investment management fee expense for the year ended December 31, 2007 and for the period from inception to December 31, 2006.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited financial statements for each year since inception to December 31, 2007.

Net Assets per Unit ("NAPU")

	2007	2006 (1)
NAPU, beginning of period	$ 10.74	$ 12.01
Increase (decrease) from operations:		
Total revenue	1.21	0.55
Total expenses	(0.26)	(0.07)
Realized gains (losses)	(0.53)	(0.16)
Unrealized gains (losses)	1.03	(1.11)
Total increase (decrease) from operations	1.45	(0.79)
Distributions:		
From net investment income	1.02	0.51
Return of capital	0.05	–
Total cash distributions	1.07	0.51
NAPU, end of period	$ 10.57	$ 10.74

(1) The Fund commenced operations on July 20, 2006, upon completion of the merger.

NAPU and cash distributions per unit are based on the actual number of units outstanding at the time. The December 31, 2007 NAPU is based on bid prices and all prior NAPU are based on closing prices. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAPU since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2007	2006
Net assets ($ 000's)	$ 496,701	$ 650,909
Number of units outstanding	46,994,139	60,632,251
Management expense ratio	1.98%	1.46%
Portfolio turnover ratio	57.62%	31.14%
Trading expense ratio	0.33%	0.29%
Closing market price	$ 9.65	$ 10.14

Management expense ratio is based on total expenses (excluding portfolio transaction costs) for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's

investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and investment manager fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund. The fees are payable in units and cash at the option of the administrator, monthly in arrears. The fees are currently paid 75% in units and 25% in cash. Fiera YMG Capital Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for a portion of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

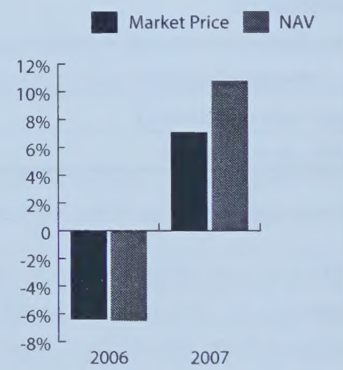
In conjunction with the merger, the administrator of Citadel Premium negotiated a settlement payment on termination of the investment manager on behalf of the three merging funds. Citadel Premium initially funded the settlement amount of $6.2 million however the administrator has agreed to compensate the Fund for the amount by way of a reduction in the annual management fee from 1.1% to 0.9%, contingent on certain conditions. This reduction of the annual management fee has been reflected in administrative and investment management fee expense for the year ended December 31, 2007.

PAST PERFORMANCE

Citadel Premium's performance numbers represent the compound total return over the period from inception on July 20, 2006 to December 31, 2007. Total return is based upon both the Fund's change in market price and net assets per unit plus the reinvestment of all distributions in additional units of the Fund.

The return does not take into account sales, redemptions or income taxes payable that would have reduced return. Past performance of the Fund does not necessarily indicate how it will perform in the future.

Year by Year Returns



COMPOUND RETURN

In the table below are the annual compound returns for Citadel Premium based on market price and net assets per unit with comparison to the S&P/TSX Capped Income Trust Index for the periods indicated to December 31, 2007. The S&P/TSX Capped Income Trust Index is a total return based on a market cap weighted index of all Global Industry Classification Standards of the income trust sector. In 2007, Citadel Premium's net assets return exceeded the index due to its relative overweight position in the ongoing business trust sector which faired much better due to takeover activity.

	1 Year	Since Inception
Premium (market price)	**7.10%**	0.16%
Premium (net assets)	**10.76%**	2.58%
S&P/TSX Capped Income Trust Index	**6.61%**	(1.14%)

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2007

Net Assets: $496,700,781

Portfolio by Sector	% of Net Assets
Ongoing Business Trusts	54.4%
Oil & Gas Royalty Trusts	31.4%
Pipeline / Energy Investments	20.7%
Real Estate Investment Trusts	13.5%
Trust units repurchased for cancellation	0.3%
Cash and Term Deposits	0.6%
Liabilities, net of other assets	(20.9%)
Total Net Assets	100.0%

TOP 25 HOLDINGS (as a % of net assets)

Vermilion Energy Trust	6.4%	Resolve Business Outsourcing Income Fund	3.4%
ARC Energy Trust	5.4%	Yellow Pages Income Fund	3.2%
Crescent Point Energy Trust	5.2%	Arctic Glacier Income Fund	3.0%
Primaris Retail Reit	5.2%	H&R Reit	3.0%
Inter Pipeline Fund	5.1%	Morneau Sobeca Income Fund	2.9%
Progress Energy Trust	4.8%	TransForce Income Fund	2.9%
Energy Savings Income Fund	4.6%	Calloway Reit	2.6%
Trinidad Energy Services Trust	4.5%	AG Growth Income Fund	2.6%
IBI Income Fund	4.4%	Futuremed Healthcare Income Fund	2.6%
Bonavista Energy Trust	4.2%	Pizza Pizza Income Fund	2.4%
Keystone North America Inc.	4.0%	Brookfield Real Estate Services Fund	2.4%
Altus Group Income Fund	3.9%	Livingston International Income Fund	2.0%
Keyera Facilities Income Fund	3.9%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at www.citadelfunds.com.

Management's Responsibility Statement

The financial statements of Citadel Premium Income Fund have been prepared by CGF Funds Management Ltd. ("CGFML") and approved by the Board of Directors of CGFML. CGFML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CGFML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CGFML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of CGFML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
CGF Funds Management Ltd.

Darren K. Duncan
Chief Financial Officer
CGF Funds Management Ltd.

March 20, 2008

Auditors' Report to Unitholders

To the Unitholders of Citadel Premium Income Fund

We have audited the statements of net assets and investments of Citadel Premium Income Fund as at December 31, 2007 and 2006 and the statements of operations and comprehensive income and changes in net assets for the year ended December 31, 2007 and for the period from June 6, 2006, date of inception of the Fund, to December 31, 2006. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2007 and 2006 and the results of its operations and the changes in its net assets for the year ended December 31, 2007 and for the period from June 6, 2006, the date of inception of the Fund, to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta
March 20, 2008

Statement of Net Assets

As at December 31	2007	2006
Assets		
Investments, at market	$ 597,458,032	$ 620,160,663
Cash and term deposits	3,053,869	31,183,438
Revenue receivable	5,243,474	5,140,624
Note receivable	638,010	460,342
Prepaid expenses	102,770	3,969
Receivable for investments sold	–	308,871
	$ 606,496,155	$ 657,257,907
Liabilities		
Accounts payable and accrued liabilities	761,085	794,262
Payable for investments purchased	4,290,080	401,356
Distributions payable	6,344,209	5,153,741
Loan payable (note 8)	98,400,000	–
	109,795,374	6,349,359
Net Assets representing Unitholders' Equity	$ 496,700,781	$ 650,908,548
Units outstanding (note 3)	46,994,139	60,632,251
Net Assets per unit	$ 10.57	$ 10.74

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

Statement of Operations & Comprehensive Income

	For the year ended December 31, 2007	For the period from June 6 to December 31, 2006
Revenue		
Distribution income	$ 58,465,361	$ 33,180,538
Interest income	1,592,109	466,138
Securities lending income	287,710	–
	60,345,180	33,646,676
Expenses		
Administrative and investment manager fees (note 4)	5,356,006	2,837,903
Loan interest (note 8)	2,449,138	–
Trailer fee (note 5)	2,047,141	1,393,073
Portfolio transaction costs (note 9)	1,811,432	–
General and administration costs	649,961	248,965
Directors' fees	183,758	18,025
Reporting costs	114,121	50,554
Custodial fees	66,102	37,766
Legal fees	53,747	2,759
Audit fees	41,293	25,175
Trustee fees	18,768	30
	12,791,467	4,614,250
Net investment income	47,553,713	29,032,426
Net realized gain (loss) on sale of investments (note 6)	(26,389,443)	(9,618,224)
Net change in unrealized gain (loss) on investments	51,196,276	(67,061,310)
Total results of operations and comprehensive income	$ 72,360,546	$ (47,647,108)
Results of operations per unit [1]		
Net investment income	$ 0.95	$ 0.48
Net realized gain (loss) on sale of investments	(0.53)	(0.16)
Net change in unrealized gain (loss) on investments	1.03	(1.11)
	$ 1.45	$ (0.79)

[1] Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

	For the year ended December 31, 2007	For the period from June 6, 2006 to December 31, 2006
Net Assets – beginning of period	**$ 650,908,548**	$ –
Fair Value Adjustment: (note 2)		
Adjust January 1, 2007 to bid prices	**(2,154,551)**	–
Operations:		
Net investment income	**47,553,713**	29,032,426
Net realized gain (loss) on sale of investments	**(26,389,443)**	(9,618,224)
Net change in unrealized gain (loss) on investments	**51,196,276**	(67,061,310)
	72,360,546	(47,647,108)
Unitholder Transactions: (note 3)		
Issuance of trust units, net	**92,476,005**	740,526,916
Proceeds from distribution reinvestment plan	**1,470,722**	544,965
Redemption of trust units	**(244,917,226)**	–
Repurchase of trust units	**(21,440,004)**	(11,591,518)
	(172,410,503)	729,480,363
Distributions to Unitholders: (note 7)		
From net investment income	**(51,226,774)**	(30,891,634)
Return of capital	**(776,485)**	(33,073)
	(52,003,259)	(30,924,707)
Net Assets – end of period	**$ 496,700,781**	$ 650,908,548
Distributions per unit	**$ 1.07**	$ 0.51

see accompanying notes

Statement of Cash Flows

For the years ended December 31	2007	2006
Cash flows from operating activities:		
Net investment income	**$ 47,553,713**	$ 29,032,426
Fees paid in trust units	**3,673,061**	1,859,208
Net change in non-cash working capital	**3,888,350**	(5,460,665)
Purchase of investments	**(354,748,682)**	(214,616,009)
Proceeds from sale of investments	**400,103,595**	216,202,640
	100,470,037	27,017,564
Cash flows from financing activities:		
Proceeds from issuance of trust units , net	**88,699,693**	5,907,902
Increase in loan payable	**98,400,000**	–
Proceeds from distribution reinvestment plan	**1,470,722**	544,965
Cash distributions to unitholders	**(50,812,791)**	(30,924,707)
Redemption of trust units	**(244,917,226)**	–
Repurchase of trust units	**(21,440,004)**	(11,591,518)
	(128,599,606)	(36,063,358)
Net increase (decrease) in cash and term deposits	**(28,129,569)**	(9,045,794)
Cash and term deposits, beginning of period	**31,183,438**	40,229,232
Cash and term deposits, end of period	**$ 3,053,869**	$ 31,183,438

Supplementary Information		
Interest paid	**$ 2,449,138**	$ –

see accompanying notes

Statement of Investments

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	*Number of Units Held*	Cost	Market Value	% of Market
Ongoing Business Trusts								
A&W Revenue Royalties Income Fund	–	$ –	$ –		1,000	$ 13,140	$ 12,580	
AG Growth Income Fund	396,300	6,148,105	13,097,715		801,300	12,431,499	12,019,500	
Aeroplan Income Fund	–	–	–		201	3,435	3,411	
Altus Group Income Fund	1,047,200	13,798,637	19,216,120		401,000	5,889,931	4,282,680	
Amtelecom Income Fund	–	–	–		1,300	14,061	14,430	
Arctic Glacier Income Fund	1,306,578	15,931,949	14,960,318		1,061,578	12,888,199	13,290,957	
Bell Aliant Regional Comm. Income Fund	–	–	–		1,576	42,170	42,489	
The Brick Group Income Fund	1,122,800	10,361,967	9,835,728		1,500	12,077	12,825	
Brookfield Real Estate Services Fund	876,600	11,820,523	11,763,972		–	–	–	
CI Financial Income Fund	–	–	–		1,000	26,464	26,720	
CML Healthcare Income Fund	344,700	5,035,423	5,901,264		132,700	1,943,632	1,851,165	
Canexus Income Fund	–	–	–		10,100	65,378	69,084	
Canfor Pulp Income Fund	–	–	–		29	346	358	
Canwest Mediaworks Income Fund	–	–	–		1,800	12,053	12,420	
Cargojet Income Fund	–	–	–		2,000	16,864	17,500	
Chemtrade Logistics Income Fund	–	–	–		1,256,300	12,764,008	10,113,215	
Cineplex Galaxy Income Fund	–	–	–		1,132,900	15,022,254	15,350,795	
Colabor Income Fund	411,000	5,001,750	4,155,210		375,000	4,668,750	3,337,500	
Contrans Income Fund	818,000	7,479,868	7,614,840		–	–	–	
The Consumers' Waterheater Income Fund	–	–	–		1,800	24,276	24,156	
Data Group Income Fund	–	–	–		4,900	38,521	41,748	
Davis + Henderson Income Fund	–	–	–		201,250	3,676,827	3,111,325	
E.D. Smith Income Fund	–	–	–		573,625	4,793,737	3,040,212	
F.P. Newspapers Income Fund	–	–	–		1,800	18,367	19,062	
First National Financial Income Fund	–	–	–		500	6,373	6,850	
Futuremed Healthcare Income Fund	1,144,700	13,484,979	12,671,829		623,100	7,336,588	5,981,760	
Gateway Casinos Income Fund	–	–	–		1,500	26,327	25,650	
Gienow Windows & Doors Income Trust	–	–	–		541,700	2,176,695	1,966,371	
Golf Town Income Fund	–	–	–		410,000	4,346,000	5,330,000	
Granby Industries Income Fund	–	–	–		737,000	3,987,170	2,432,100	
Great Lakes Carbon Income Fund	–	–	–		291,000	2,763,252	3,288,300	
Home Equity Income Fund	–	–	–		500	6,119	6,130	
IBI Income Fund	918,650	17,037,559	21,937,362		299,400	4,190,848	3,622,740	
Jazz Air Income Fund	–	–	–		2,900	24,886	24,766	
K-Bro Linen Income Fund	539,900	7,439,962	7,191,468		173,000	2,594,930	1,897,810	
KCP Income Fund	–	–	–		1,150,300	11,709,251	8,558,232	
Keystone North America Inc.	2,537,000	20,999,435	19,864,710		1,570,300	12,811,714	12,059,904	
Lakeport Brewing Income Fund	–	–	–		1,000	20,377	21,800	
Liquor Stores Income Fund	275,000	6,408,882	6,578,000		–	–	–	
Livingston International Income Fund	604,700	12,952,775	10,038,020		290,700	7,212,651	6,052,374	
Medical Facilities Corp.	–	–	–		1,337,967	12,160,665	12,041,703	
Morneau Sobeco Income Fund	992,100	12,552,142	14,454,897		486,000	6,291,345	5,059,260	
New Flyer Industries Inc.	–	–	–		537,100	4,494,074	4,930,578	
Newalta Income Fund	–	–	–		3,400	92,027	95,710	
Newport Partners Income Fund	–	–	–		10,620	59,107	61,490	
Noranda Income Fund	–	–	–		238,500	3,041,130	2,349,225	
OFI Income Fund	928,600	7,574,088	4,670,858		425,600	3,915,181	3,736,768	
PDM Royalties Income Fund	–	–	–		1,600	13,833	15,200	
PRT Forest Income Fund	–	–	–		613,200	6,898,500	5,052,768	
Pizza Pizza Royalty Income Fund	1,187,650	11,155,953	11,935,883		478,200	4,275,166	3,830,382	
Pollard Banknote Income Fund	–	–	–		2,000	17,752	18,400	
Prime Restaurants Royalty Income Fund	–	–	–		1,830	12,742	13,377	
Priszm Income Fund	–	–	–		981,300	11,236,209	11,510,649	
Resolve Business Outsourcing Income Fund	2,146,400	17,104,756	16,849,240		519,200	4,121,619	4,413,200	
Richards Packaging Income Fund	1,021,300	8,170,101	9,406,173		1,021,300	8,170,101	8,578,920	
Rogers Sugar Income Fund	1,310,050	5,549,466	6,117,934		3,043,750	12,292,284	11,201,000	

(continued on following page)

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	*Number of Units Held*	Cost	Market Value	% of Market
(continued from previous page)								
Royal LePage Franchise Services Income Fund	–	–	–		*250,000*	3,385,000	3,337,500	
Second Cup Royalty Income Fund	*578,000*	6,206,420	5,323,380		*528,000*	5,691,420	4,815,360	
Sir Royalty Income Fund	–	–	–		*1,900*	16,185	16,378	
Sleep Country Canada Income Fund	–	–	–		*2,000*	52,321	55,580	
Somerset Entertainment Income Fund	*782,300*	2,418,948	2,479,891		*599,400*	1,842,448	1,396,602	
Specialty Foods Group Income Fund	–	–	–		*12,000*	977	1,080	
Spinrite Income Fund	–	–	–		*418,300*	527,963	472,679	
Sterling Shoes Income Fund	*235,300*	3,740,673	3,823,625		*150,000*	2,214,343	2,317,500	
Strongco Income Fund	–	–	–		*300*	3,512	3,564	
Student Transport of America Inc.	–	–	–		*526,500*	6,028,425	5,923,125	
Superior Plus Income Fund	–	–	–		*551,700*	6,013,257	5,908,707	
Supremex Income Fund	*52,800*	426,281	312,576		*52,800*	426,281	447,216	
Telus Corp.	–	–	–		*300,000*	18,134,931	15,609,000	
Teranet Income Fund	–	–	–		*33,450*	292,514	297,371	
TransForce Income Fund	*1,566,317*	24,477,023	14,410,116		*1,566,317*	24,477,023	21,129,616	
UE Waterheater Income Fund	–	–	–		*17*	231	240	
Versacold Income Fund	–	–	–		*377,850*	3,675,456	3,396,872	
Voxcom Income Fund	–	–	–		*4,000*	36,012	36,600	
Yellow Pages Income Fund	*1,137,430*	16,766,702	15,798,903		*1,143,930*	17,486,049	14,722,379	
Yellow Pages Income Fund – warrants	–	–	–		*35,000*	7,000	2,100	
		270,044,367	270,410,032	45.0%		300,982,252	270,767,018	41.5%
Real Estate Investment Trusts								
Allied Properties Reit	*427,000*	8,790,250	8,826,090		–	–	–	
Calloway Reit	*542,500*	12,929,119	13,144,775		–	–	–	–
Chartwell Seniors Housing Reit	–	–	–		*1,500*	20,315	20,910	
H&R Reit	*749,650*	16,143,170	14,835,573		*686,250*	14,827,347	16,531,762	
Huntingdon Reit	–	–	–		*1,566,000*	3,445,200	3,601,800	
IPC U.S. Reit	–	–	–		*1,240,545*	12,945,572	15,382,758	
InnVest Reit	–	–	–		*1,285,000*	16,859,200	17,733,000	
Legacy Hotels Reit	–	–	–		*300*	2,810	2,844	
Morguard Reit	*362,900*	4,655,165	4,681,410		*62,263*	725,817	855,494	
Northern Property Reit	–	–	–		*700*	19,223	19,565	
Primaris Retail Reit	*1,408,600*	25,099,068	25,622,434		*759,600*	12,995,356	14,341,248	
Retirement Residences Reit	–	–	–		*1,525,032*	11,437,764	12,627,265	
Royal Host Reit	–	–	–		*215*	1,388	1,408	
Scotts Reit	–	–	–		*40,100*	408,786	411,827	
Sunrise Senior Living Reit	–	–	–		*900*	8,998	9,594	
Whiterock Reit	–	–	–		*50*	629	665	
		67,616,772	67,110,282	11.2%		73,698,405	81,540,140	12.5%
Oil & Gas Royalty Trusts								
ARC Energy Trust	*1,326,050*	34,409,779	27,011,638		*1,102,850*	30,366,251	24,593,555	
Advantage Energy Income Fund	–	–	–		*835*	11,354	10,379	
Baytex Energy Trust	*515,400*	12,498,450	9,741,060		*630,200*	15,282,350	14,040,856	
Bonavista Energy Trust	*726,500*	18,740,086	20,618,070		*220,000*	7,777,000	6,193,000	
Bonterra Energy Income Trust	*79,300*	2,274,375	1,883,375		*39,300*	1,247,380	1,004,901	
Canadian Oil Sands Trust	–	–	–		*500*	16,449	16,305	
Canetic Resources Trust	–	–	–		*375,798*	8,617,320	6,178,119	
Crescent Point Energy Trust	*1,043,000*	23,227,510	25,751,670		*980,000*	21,707,000	17,248,000	
Duke Energy Income Fund	–	–	–		*4,950*	47,887	51,480	
Enerplus Resources Fund	–	–	–		*513,783*	30,633,126	26,038,522	
Focus Energy Trust	–		–		*1,320,700*	28,859,914	24,010,326	
Harvest Energy Trust	–	–	–		*576*	15,086	15,108	
NAL Oil & Gas Trust	–	–	–		*61,800*	1,238,514	760,758	
Paramount Energy Trust	*900,000*	5,742,750	5,634,000		*343,500*	6,440,625	4,259,400	
Pengrowth Energy Trust	–	–	–		*6,808*	135,500	135,752	
PennWest Energy Trust	–	–	–		*349,600*	13,386,201	12,435,272	
Peyto Energy Trust	–	–	–		*775*	13,409	13,717	
PrimeWest Energy Trust	–	–	–		*463*	11,247	9,954	
Progress Energy Trust	*2,223,000*	26,502,000	24,052,860		*471,000*	7,247,288	5,920,470	

(continued on following page)

	December 31, 2007				December 31, 2006			
	Number of Units Held	**Cost**	**Market Value**	**% of Market**	*Number of Units Held*	Cost	Market Value	% of Market
(continued from previous page)								
Provident Energy Trust	–	–	–		*5,500*	70,849	70,620	
Shiningbank Energy Income Fund	–	–	–		*100,000*	1,464,890	1,285,000	
Trilogy Energy Trust	–	–	–		*14*	157	160	
Vermilion Energy Trust	*927,300*	30,553,517	31,583,838		*955,000*	31,291,546	33,425,000	
Zargon Energy Trust	*420,800*	13,079,979	9,594,240		*567,500*	17,845,869	14,068,325	
		167,028,446	155,870,751	26.0%		223,727,212	191,784,979	29.4%
Power Generation Investments								
Atlantic Power Corporation	–	–	–		*1,016*	10,866	11,471	
Countryside Power Income Fund	–	–	–		*1,318,200*	12,633,581	9,161,490	
MacQuarie Power & Infrastructure Income Fund	–	–	–		*2,100*	20,677	21,105	
Northland Power Income Fund	–	–	–		*205,550*	2,957,757	2,686,538	
Primary Energy Recycling Corp.	–	–	–		*303,200*	3,032,052	3,168,440	
TransAlta Power, L.P.	–	–	–		*21,368*	153,508	159,619	
		–	–	–		18,808,441	15,208,663	2.3%
Infrastructure / Service Investments								
AltaGas Income Trust	*117,000*	2,923,526	3,077,100		*568,700*	15,786,486	14,899,940	
CCS Income Trust	–	–	–		*190,100*	6,986,175	7,176,275	
Enbridge Income Fund	–	–	–		*1,000*	12,990	13,200	
Energy Savings Income Fund	*1,370,500*	22,894,814	22,818,825		*854,900*	15,156,807	11,498,405	
Essential Energy Services Trust	–	–	–		*150*	782	781	
Fort Chicago Energy Partners L.P.	–	–	–		*1,305*	15,015	14,968	
Inter Pipeline Fund	*2,681,500*	25,877,526	25,420,620		*909,800*	9,255,861	8,224,592	
Keyera Facilities Income Fund	*971,000*	18,834,737	19,196,670		*720,500*	14,589,435	11,989,120	
Precision Drilling Trust	–	–	–		*500*	14,331	13,500	
TerraVest Income Fund	–	–	–		*7,450*	44,730	47,531	
Total Energy Services Trust	*1,837,600*	15,883,649	9,812,784		–	–	–	
Trinidad Energy Services Income Trust	*2,136,000*	23,043,575	22,428,000		*475,800*	7,726,992	6,566,040	
Wellco Energy Services Trust	–	–	–		*2,200*	14,703	15,994	
		109,457,827	102,753,999	17.1%		69,604,307	60,460,346	9.3%
Citadel Premium units – repurchased for cancellation	*136,200*	1,330,205	1,312,968	0.2%	*39,400*	401,356	399,516	0.0%
Investments		615,477,617	597,458,032	99.5%		687,221,973	620,160,662	95.2%
Cash and Term Deposits		3,053,869	3,053,869	0.5%		31,183,438	31,183,438	4.8%
Total		$ 618,531,486	$ 600,511,901	100.0%		$ 718,405,411	$ 651,344,100	100.0%

All portfolio holdings are trust units, except the following: TransAlta Power L.P. – limited partnership units; Fort Chicago Energy Partners L.P. – Class A limited partnership units, Medical Facilities Corp and Atlantic Power Corporation – income participating security, New Flyer Industries Inc. – income deposit security, Telus Corp. – common shares.

Notes to Financial Statements

December 31, 2007 and 2006

1. STRUCTURE OF THE FUND

Citadel Premium Income Fund (the "Fund" or "Premium") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of June 6, 2006 and amended and restated July 13, 2006. The Fund commenced operations on July 20, 2006, when it completed a merger of three Citadel Funds – MYDAS Fund, Citadel Multi-Sector Income Fund and Citadel Income & Growth Income Fund ("Merging Funds").

At Special Meetings of the unitholders of the Merging Funds held on September 14, 2005 and October 12, 2005, unitholders approved a special resolution authorizing the board of directors of such funds to merge with other similar Citadel Funds.

Subsequently, the board of directors determined that each of the Merging Funds had similar investment objectives and that such merger would result in lower general and administration expenses on a combined basis.

Effective the close of business on July 19, 2006, MYDAS Fund, Citadel Multi-Sector Income Fund and Citadel Income & Growth Fund were merged into a new fund, Citadel Premium Income Fund, with unitholders of the Merging Funds receiving units of Citadel Premium on a relative net asset value basis. The merger has been recorded using the purchase method of accounting for business combinations with Citadel Premium issuing 61,000,000 units in exchange for the net assets of each of the Merging Funds on July 19, 2006.

The Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Administrator with the prior approval of the unitholders of the Fund by special resolution passed at a meeting called for such purpose.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and term deposits

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are valued at fair value. The fair value of securities which are actively traded are valued at bid price as published on the recognized stock exchange on which the investment is listed or principally traded. Prior to January 1, 2007, investments were generally valued at the closing price. The fair value adjustment from the closing price as at December 31, 2006, to the closing bid price for investments at December 31, 2007, is reflected in the Statement of Changes in Net Assets. Investments not traded on the valuation date are valued at the average of the closing bid and ask prices. Average cost is used to compute realized and 2nrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to unitholders, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest and securities lending income is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Fund is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on the closing for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the investments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. An adjustment has been made to the opening net assets in the Statement of Changes in Net Assets in order to reflect the effect on investments held at December 31, 2006, of following section 3855 with respect to recording the fair value of investments at bid prices.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. Upon adoption on January 1, 2007, the Fund was not party to any derivative contracts. Portfolio investments and loan payable were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, investments, note receivable, receivable for investments sold, prepaid expenses, investments, accounts payable and accrued liabilities, distributions payable and payable for investments purchased approximate their carrying amount due to the short-term maturity of these instruments.

(f) Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable redeemable units of beneficial interest.

Issued and outstanding	December 31, 2007		December 31, 2006	
	Number	Amount	Number	Amount
Trust units – beginning of period	**60,632,251**	**$ 729,480,363**	–	$ –
Issued for cash:				
Issued upon Fund merger	–	–	61,000,000	733,782,941
Agents' fees and issue costs	–	–	–	(312,589)
Issued for services (note 4)	**356,399**	**3,776,312**	169,336	1,859,208
Issued under DRIP	**140,667**	**1,470,722**	52,987	544,965
Issued pursuant to Exchange Offering	–	–	484,828	5,197,356
Issued pursuant to Rights Offering	**9,468,337**	**88,699,694**	–	–
Redemption of trust units	**(21,559,615)**	**(244,917,226)**	–	–
Repurchase of trust units	**(2,043,900)**	**(21,440,004)**	(1,074,900)	(11,591,518)
Trust units – end of period	**46,994,139**	**$ 557,069,861**	60,632,251	$ 729,480,363

The weighted average number of units outstanding for the year ended December 31, 2007 was 49,901,833 units (2006 - 60,667,839 units).

On November 20, 2007, the Fund closed a rights offering which resulted in the issuance of 9,468,337 trust units for net proceeds of $88.7 million. Each unitholder of record on October 23, 2007 received one right for each trust unit held. Four rights entitled the holder to purchase one trust unit for a price of $9.50.

On December 29, 2006, the Fund completed an exchange offering whereby holders of qualified investments could exchange their units for units of the Fund. As a result of this offering, the Fund issued 484,828 units at $10.72 per unit for a total value of $5.2 million. The Administrator has agreed to reimburse the Fund for the issue costs pertaining to the exchange offer.

Unitholders have the right to redeem their units on an annual basis in June of each year, commencing June 2007. The redemption value is net asset value less the costs of and associated with selling sufficient investments to meet the redemption amount. On June 29, 2007, unitholders elected to redeem a total of 21.6 million trust units at $11.36 per unit for a total of $244.9 million.

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. For the year ended December 31, 2007, 2,043,900 trust units were repurchased under this program for an average cost of $10.49 per unit (2006 - 1,074,900 trust units at an average cost of $10.78 per unit).

On December 18, 2007, the Fund entered into a normal course issuer bid whereby a total of 4,550,763 trust units may be repurchased for cancellation over a period of twelve months. For the year ended December 31, 2007, the Fund had repurchased 113,900 trust units pursuant to this bid at an average cost of $9.71 per unit.

Unitholders of Premium can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of the Fund at the 5 day weighted average market price of the Fund's units. For the year ended December 31, 2007, 140,667 units were issued under the DRIP (2006 - 52,987 units).

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES / DIRECTORS' FEES

CGF Funds Management Ltd. ("CGFML") is the administrator of the Fund and therefore a related party to the Fund. Fiera YMG Capital Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund. The fee is payable in units or cash, at the option of the administrator, monthly in arrears.

The fee is currently paid 75% in units and 25% in cash. For the year ended December 31, 2007, the Fund issued 331,999 units and paid $1,862,720 in cash for a total expense of $5,356,006 (2006 - 169,336 units and $978,695 in cash for a total expense of $2,837,903) in respect of the administrative and investment management fees earned during the period. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2007, included in accounts payable were amounts owed to CGFML of $244,152 (2006 - $127,310 included in accounts payable).

In conjunction with the merger, the administrator of Citadel Premium negotiated a settlement payment on termination of the investment manager on behalf of the three merging funds. Citadel Premium initially funded the settlement amount of $6.2 million however the administrator has agreed to compensate the Fund for the amount by way of a reduction in the annual management fee from 1.1% to 0.9%, contingent on certain conditions. This reduction of the annual management fee has been reflected in administrative and investment management fee expense for the year ended December 31, 2007.

Directors of CGFML received a total of 24,400 units for a value of $274,423 in 2007 as payment for their annual retainers.

5. TRAILER FEE

Citadel Premium pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. For the year ended December 31, 2007, the Fund recorded an expense of $2,047,141 relating to the trailer fee (period ended December 31, 2006 - $1,393,073).

6. INVESTMENTS

The net realized gain (loss) on the sale of investments was determined as follows:

	Year Ended December 31, 2007	Period from June 6 to December 31, 2006
Proceeds from the sale of securities	**$ 400,103,595**	$ 216,202,640
Less cost of securities sold:		
Investments at cost – beginning of period	**687,221,973**	698,426,829
Investments purchased during period	**354,748,682**	214,616,009
Investments at cost – end of period	**(615,477,617)**	(687,221,973)
Cost of investments disposed of during period	**426,493,038**	225,820,865
Net realized gain (loss) on sale of investments	**$ (26,389,443)**	$ (9,618,224)

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions based upon cash distributions received by the Fund less estimated expenses. For the year ended December 31, 2007 and for the period ended December 31, 2006, the Fund also distributed a portion of its realized gains and/or return of capital.

	Year Ended December 31, 2007	Period from June 6 to December 31, 2006
Net investment income for the period	**$ 47,553,713**	$ 29,032,426
Add fees paid by issuance of units	**3,673,061**	1,859,208
Capital distributed	**776,485**	33,073
Cash distributions	**$ 52,003,259**	$ 30,924,707
Cash distributions per unit	**$ 1.07**	$ 0.51

8. **LOAN FACILITY**

The Fund has a revolving credit facility with a Canadian chartered bank up to a maximum amount of $150 million. As at December 31, 2007, the Fund had drawn $98.4 million on its credit facility (December 31, 2006 - nil). Borrowings are collateralized by a general security agreement which provides a first floating charge over the Fund's assets. The credit facility bears interest at the bank's prime lending rate or at rates slightly below prime if incurred by way of bankers' acceptances. The credit facility is a revolving facility that will revolve until July 18, 2008 and for a further 364 days at the option of the bank. For 2007, the maximum borrowings on the facility were $115 million and the minimum borrowings were nil.

9. **PORTFOLIO TRANSACTION COSTS**

For the year ended December 31, 2007, the Fund incurred portfolio transaction costs of $1,881,432 (2006 - $933,122) and they are recorded separately in the Statement of Operations for 2007 only, as per Note 2(e).

10. **SECURITIES LENDING**

The Fund engaged in securities lending during 2007 and as at December 31, 2007, the Fund had lent out $92.8 million (2006 – nil) of its portfolio securities with $97.5 million (2006 – nil) of collateral in primarily federal and provincial bonds.

Corporate Information

ADMINISTRATORS

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
Citadel Series Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
CGF Funds Management Ltd.
CGF Resource FT Funds Management Ltd.
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Toll Free: 1 877 261-9674
Fax: (403) 261-8670
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INVESTMENT MANAGER
(EPF.un, SPU.un and CGF Resource 2006)

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INVESTMENT MANAGER
(CPF.un)

Fiera YMG Capital Inc.
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REBALANCING ADVISOR
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INDEPENDENT REVIEW COMMITTEE

Stephen Allan - Chairman
John Watson
Duane Keinick

DIRECTORS AND OFFICERS

Harold P. Milavsky - Chairman of the Board
Micheline Bouchard - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer
Joseph F. MacDonald - Executive V.P. Sales & Marketing

TRUSTEE

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Calgary, Alberta T2P 5C5

AUDITORS

PricewaterhouseCoopers LLP
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Calgary, Alberta T2P 5L3

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
Citadel Premium Income Fund units: **CPF.un**
Series S-1 Income Fund units: **SRC.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**
Financial Preferred Securities Corporation shares: **FPR.pr.a**
CGF Resource 2006 Flow-Through Limited Partnership units: not listed

GROUP OF FUNDS™

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